



DEPARTMENT OF STATE

Washington, D.C. 20520

September 23, 1981

Dear Mr. Hollenbeck,

This is in response to your letter of August 19, enclosing a letter from your constituent Dominick Iaconetti on U.S. grain and butter trade.

The Commodity Credit Corporation, part of the U.S. Department of Agriculture, purchases butter under the federal dairy price support program. The CCC purchases this butter at a price well above the world market butter price. High procurement prices have led to the accumulation of a large and expensive stock of surplus butter which cannot be sold domestically without disrupting the price support program. As the CCC price is above the world market price, any CCC butter exports must be subsidized. This Administration seeks to reduce the use of export subsidies generally and is particularly opposed to subsidized trade with the USSR. The Department of Agriculture arranged to sell 100,000 tons of butter to New Zealand with the proviso that the butter not be resold to the USSR. This sale reduces the CCC inventories, recovers some of the investment in the butter, and was arranged so as not to disrupt world commercial butter markets in possible violation of our international commitments under the General Agreement on Tariffs and Trade.

Grain, on the other hand, is sold by private companies to foreign buyers on a regular basis at the prevailing market price. Our grain trade with the USSR, though conducted by the private sector, has been governed since 1976 by a long-term bilateral grain agreement, which commits the U.S. to allow the Soviets to buy at least 8 million tons of U.S. grain annually. The current bilateral grain agreement was extended through September 30, 1982 last month in Vienna.

The Honorable
Harold C. Hollenbeck
House of Representatives

DEPARTMENT OF STATE A/CDC/MR

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TS AUTH. _____ REASON(S) _____

ENDORSE EXISTING MARKINGS _____

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The U.S. will hold the prescribed semi-annual consultations with the Soviets September 30-October 1 to discuss the additional amount the Soviets may want to purchase in 1981/82. The grain agreement gives the U.S. Government oversight of Soviet purchases of U.S. grain and helps insure that the trade does not destabilize U.S. markets.

I hope this information will be useful to you in responding to Mr. Iaconetti's concerns.

Sincerely,

Richard Fairbanks
Assistant Secretary
for Congressional Affairs

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